

Southeast Macomb Sanitary District

**Financial Report
with Supplemental Information
June 30, 2003**

Southeast Macomb Sanitary District

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Independent Auditor's Report

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of the Southeast Macomb Sanitary District as of June 30, 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Macomb Sanitary District at June 30, 2003 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and employees' retirement system schedule of funding progress (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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To the Board of Directors
Southeast Macomb Sanitary District

As described in Note I, the Southeast Macomb Sanitary District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

Plante & Moran, PLLC

September 26, 2003

Southeast Macomb Sanitary District

Management's Discussion and Analysis

Using this Annual Report

The Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. This is followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

Financial Overview

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintain reserves for upgrading the efficiency of the system's infrastructure.

Condensed Financial Information

The following table presents condensed information about the District's financial position compared to the prior year. Net assets increased by approximately \$600,000, which is consistent with management's conclusion that current reserve levels are sufficient to cover currently foreseen infrastructure needs.

	Year Ended June 30		Change	
	2003	2002	Amount	Percent
Current assets	\$ 15,968,997	\$ 15,399,635	\$ 569,362	4
Capital assets	2,945,462	2,818,477	126,985	5
Total assets	18,914,459	18,218,112	696,347	4
Current liabilities	3,491,436	3,392,708	98,728	3
Accumulated employee benefits	57,905	57,974	(69)	-
Total liabilities	3,549,341	3,450,682	98,659	3
Net assets:				
Invested in capital assets - Net				
of debt	2,945,462	2,818,477	126,985	5
Unrestricted	12,419,656	11,948,953	470,703	4
Total net assets	\$ 15,365,118	\$ 14,767,430	\$ 597,688	n/a

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the District's revenues and expenses compared to the prior year. The most significant change relates to an increase in sewage treatment costs, which escalated to over 20 percent higher than 2002, due in large part to increases passed on by Wayne County.

	Year Ended June 30		Change	
	2003	2002	Amount	Percent
Operating revenue - Treatment fees	\$ 12,412,401	\$ 10,583,484	\$ 1,828,917	17
Operating expenses:				
Cost of sewage disposal	11,305,396	9,292,536	2,012,860	22
Operation and maintenance	673,931	735,244	(61,313)	(8)
Administrative and other	129,829	126,755	3,074	2
Total operating expenses	12,109,156	10,154,535	1,954,621	19
Other nonoperating revenue	294,443	404,898	(110,455)	(27)
Net income	<u>\$ 597,688</u>	<u>\$ 833,847</u>	<u>\$ (236,159)</u>	

Capital Asset and Infrastructure Planning

During the current year, the District began planning two different capital improvement projects that will occur in the 2003-2004 fiscal year. These two projects will improve the efficiency of the system and ease stress on two major drains operated by the system, namely the Nine Mile Road Drain Cleaning and the Eleven Mile Road Sanitary Relief Drain. The cost of these projects, approximating \$4,000,000, will be paid for by current resources of the District.

Economic Factors and Next Year's Budgets and Rates

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow. The District's budget for the year ending June 30, 2004 forecasts a moderate increase in sewage flow volume and, therefore, costs.

Contacting the District's Management

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District offices.

Southeast Macomb Sanitary District

Statement of Net Assets June 30, 2003

Assets

Cash (Note 2)	\$ 9,828,412
Investments (Note 2)	4,440,159
Accounts receivable	1,645,317
Accrued interest receivable	35,861
Prepaid insurance	19,248
Capital assets (Note 3)	<u>2,945,462</u>

Total assets	<u>18,914,459</u>
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Liabilities

Accounts payable	3,483,126
Accrued payroll and related taxes	8,310
Accumulated employee benefits	<u>57,905</u>

Total liabilities	<u>3,549,341</u>
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Net Assets

Invested in capital assets	2,945,462
Unrestricted	<u>12,419,656</u>

Total net assets	<u><u>\$ 15,365,118</u></u>
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Southeast Macomb Sanitary District

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2003

Operating Revenue - Treatment fees	\$ 12,412,401
Operating Expenses	
Cost of sewage disposal	11,305,396
System maintenance and operation	673,931
General and administrative	27,879
Depreciation	<u>101,950</u>
Total operating expenses	<u>12,109,156</u>
Operating Income	303,245
Nonoperating Revenue - Interest income	<u>294,443</u>
Net Income	597,688
Net Assets - Beginning of year	<u>14,767,430</u>
Net Assets - End of year	<u><u>\$ 15,365,118</u></u>

Southeast Macomb Sanitary District

Statement of Cash Flows Year Ended June 30, 2003

Cash Flows from Operating Activities

Cash received from customers	\$ 12,619,217
Cash payments to suppliers for goods and services	(11,407,448)
Cash payments to employees for services	<u>(501,098)</u>

Net cash provided by operating activities 710,671

Cash Flows from Capital and Related Financing Activities - Construction progress

(228,935)

Cash Flows from Investing Activities

Interest received on investments	294,443
Purchase of investments	(4,440,159)
Proceeds from sale and maturities of investments	<u>13,320,162</u>

Net cash provided by investing activities 9,174,446

Net Increase in Cash and Cash Equivalents 9,656,182

Cash and Cash Equivalents - July 1, 2002 172,230

Cash and Cash Equivalents - June 30, 2003 \$ 9,828,412

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 303,245
Depreciation expense included in operating income	101,950
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:	
Decrease in accounts receivable	206,816
Increase in accounts payable and accrued payroll	<u>98,660</u>

Net cash provided by operating activities \$ 710,671

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2003

Note 1 - Nature of Business and Significant Accounting Policies

The Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to generally accepted accounting principles applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

Accounting Changes

GASB Statement No. 34 - Effective July 1, 2002, Southeast Macomb Sanitary District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34).

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2003

Note 2 - Cash and Investments

The District's deposits and investments, which are categorized on the balance sheet as cash and investments, consist of the following:

	Cash and Cash Equivalents	Investments	Total Cash and Investments
Bank deposits (checking accounts, money market accounts, and certificates of deposit)	\$ 9,828,357	\$ 4,440,159	\$ 14,268,516
Petty cash and cash on hand	55	-	55
Total investments	<u>\$ 9,828,412</u>	<u>\$ 4,440,159</u>	<u>\$ 14,268,571</u>

Deposits - At June 30, 2003, the above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$14,200,000. Of that amount, \$300,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The District is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The District's investments during the year consisted solely of certificates of deposit. There was \$4,440,159 of certificates of deposit that were classified as investments at June 30, 2003. The District believes that the investments in these funds comply with the investment authority noted above.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2003

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	2002	Additions	2003	Depreciable Life - Years
Capital assets not being depreciated:				
Land	\$ 79,243	\$ -	\$ 79,243	-
Construction in progress	-	228,935	228,935	
Capital assets being depreciated:				
Pump station	2,926,919	-	2,926,919	50
Interceptor	512,292	-	512,292	50
Nine Mile plant	37,887	-	37,887	15-30
Improvements	200,636	-	200,636	10-25
Paving and sewer	17,661	-	17,661	15
Trucks and equipment	77,645	-	77,645	3
Furniture and equipment	57,216	-	57,216	5-10
Subtotal	3,830,256	-	3,830,256	
Less accumulated depreciation for:				
Pump station	(584,846)	(61,250)	(646,096)	
Interceptor	(213,188)	(21,365)	(234,553)	
Nine Mile plant	(28,801)	(1,992)	(30,793)	
Improvements	(145,359)	(6,030)	(151,389)	
Paving and sewer	(17,661)	-	(17,661)	
Trucks and equipment	(56,438)	(7,718)	(64,156)	
Furniture and equipment	(44,729)	(3,595)	(48,324)	
Subtotal	(1,091,022)	(101,950)	(1,192,972)	
Net capital assets being depreciated	2,739,234	(101,950)	2,637,284	
Total capital assets - Net of depreciation	\$ 2,818,477	\$ 126,985	\$ 2,945,462	

Note 4 - Defined Benefit Pension Plan

Plan Description - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2003

Note 4 - Defined Benefit Pension Plan (Continued)

Funding Policy - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

Annual Pension Cost - For the year ended June 30, 2003, the District's annual pension cost of \$58,548 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the individual aggregate actuarial funding method. Significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2001	2002	2003
Annual pension cost (APC)	\$ 63,459	\$ 70,040	\$ 58,548
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

Note 5 - Postemployment Benefits

The District provides health care benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured health care plan, with no contribution required by the participants. The total expense for postemployment health care benefits, which is recognized as insurance premiums become due, amounted to approximately \$32,000 for the year ended June 30, 2003.

Note 6 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2003

Note 6 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Required Supplemental Information

Southeast Macomb Sanitary District

Employees' Retirement System Schedule of Funding Progress June 30, 2003

	(1)	(2)	(3)	(4)	(5)	(6)
	Net Assets	Pension	Percent	(Overfunded)	Annual	(Overfunded)
	Available	Benefit	Funded	Unfunded	Covered	Unfunded
As of	for	Obligation		PBO	Payroll	PBO as a
June 30	Benefits	(PBO)	(1) ÷ (2)	(2) - (1)		Percentage of
						Covered
						(4) ÷ (5)
1993	\$ 682,157	\$ 557,657	122.33	\$ (124,500)	\$ 274,014	(45.44)
1994	656,648	659,755	99.53	3,107	301,934	1.03
1995	766,636	866,646	88.46	100,010	339,664	29.44
1996	838,573	953,307	87.96	114,734	301,324	38.08
1997	666,089	877,846	75.88	211,757	283,670	74.65
1998	249,124	289,160	86.15	40,036	270,977	14.77
1999	322,156	390,137	82.58	67,981	283,531	23.98
2000	341,316	468,637	72.83	127,321	331,778	38.38
2001	425,359	642,796	66.17	217,437	367,209	59.21
2002	508,368	689,752	73.70	181,384	284,931	63.66

Other Supplemental Information

Southeast Macomb Sanitary District

Schedule of Operating Expenses Year Ended June 30, 2003

System Maintenance and Operation

Salaries and wages	\$ 375,348
Pension expense	62,968
Payroll taxes	26,140
Hospitalization	98,057
General insurance	58,268
Life insurance	809
Dental and optical insurance	744
Repairs and replacement	30,546
Telephone	4,154
Utilities	6,634
Office supplies and expense	3,119
Fuel and oil	5,064
Miscellaneous expenses	<u>2,080</u>

Total system maintenance and operation **\$ 673,931**

General and Administrative

Board meetings	\$ 2,310
Professional fees	23,301
Miscellaneous expense	<u>2,268</u>

Total general and administrative **\$ 27,879**